

BENEFON OYJ BULLETIN 19.5.2006 at 17:00 hrs

## **INTERIM REPORT 1-3/2006**

### **HIGHLIGHTS**

Strategic financing program successfully completed  
New TWIG brand for consumer navigation market launched  
TWIG Discovery and TWIG Locator products shown in Barcelona and Hannover  
Production preparations for TWIG range started in China  
Sales decreased clearly compared with previous year due to lifecycle of old product line getting closer to its end and delay in getting the new TWIG products in the markets  
IFRS adoption completed

### **GENERAL**

The business of the company is to offer mobile telematics terminals, software and solutions for securing lives and property, for improving field management and for tracking and personal navigation applications and location based services.

The first quarter 2006 of the company was characterised by the completion of the new share issue, the strategic financing program required for completing the new business plan and the finalisation of the development of the product program, production set up in China and the market introduction of the first new TWIG products. With the proceeds received from the January share issue, the financial position of the company is now appropriate for the needs of the production start and market introduction of the new TWIG products. The first quarter results were affected by the reduced demand for the company's current range of products, which are coming to the end of their current life cycle. The second quarter 2006 will also see such reduced demand. The financial result for the year 2006 will be strongly dependent on the timing of the introduction of the new TWIG products in the various markets and the ultimate success of the sales of the respective products.

The Company adopted the International Financial Reporting System (IFRS) during financial year 2005 and the financial statements for the year 2005 and onwards are prepared in accordance with IFRS standards.

There were no significant changes in the operational environment during the first quarter.

#### TWIG product program

The company is focusing on the finalisation of its new TWIG product range and the continued implementation of its current business plan, the crucial part of which is the launch of the sales of the TWIG product range in various markets and the development of the TWIG brand identity.

On February 14, the company launched the new TWIG brand and its new personal navigation device TWIG Discovery at the 3GSM Conference in Barcelona, Spain.

On March 9, the company launched its next TWIG product, a personal security device TWIG Locator, at the annual CeBIT trade show in Hannover, Germany.

The deliveries of the first product of this product program, TWIG Discovery, were originally planned to begin during the first quarter of 2006. Due to unforeseeable delays in development, testing and the production phase the

project has been delayed and according to latest estimates the sales are targeted to start at the beginning of the third quarter of 2006.

The company's TWIG products are mainly manufactured by subcontractors in China.

#### Directed share issue

The company arranged a directed share issue to shareholders and investors in January 2006 for implementing the prepared financing solution. The offering and listing prospectus for the issue was published on January 18, 2006. In the share issue 53 shareholders and 25 investors subscribed for a total of 78,293,102 new investment series shares (BNFSV) of the company at the share subscription price of EUR 0,21. Total subscription price received by the Company was EUR 16,441,551.42, of which EUR 11,676,082.32 was paid in cash and EUR 4,765,469.10 using receivables from the company for set-off.

By virtue of the subscriptions company's share capital was increased by the decision of extraordinary general meeting of January 31, 2006 by EUR 782,931.02 from EUR 1,312,540.46 to EUR 2,095,471.48 and the number of outstanding shares from 131,254,046 shares to 209,547,148 shares. Increase in the share capital was registered in the trade register on February 9, 2006, and the new shares listed for trading in Helsinki Stock Exchange along with company's existing investment series shares on February 10, 2006.

#### Offering and listing prospectus

On January 18, the Company publicised the Offering and Listing Prospectus prepared for the share issue. The Finnish language prospectus provides a comprehensive package of useful information about the Company and it is available as a PDF document on the Company's web site [www.benefon.com](http://www.benefon.com)

#### **SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD**

In total 20,000,000 option rights of series Benefon 2005B issued by the extraordinary general meeting of September 5, 2005 were by the decision of the board of directors offered for subscription by Octagon Capital Limited for holding purposes and accordingly subscribed by Octagon Capital Limited on April 19, 2006.

In the bulletin to call annual general meeting issued on May 5, 2006, the company informed that the Board of Directors will propose to the annual general meeting that the company would enter into a management agreement with Octagon Consulting Limited ("OCOL") and amending the terms of options rights 2004A and article 8 of the Articles of Association.

The main terms of the agreement are:

- Named key resources of OCOL will resource in total 400 monthly working hours to provide services to Benefon.
- As a compensation for monthly services OCOL will be paid a management fee of 15,000 GBP. The fee is increased to 20,000 GBP/month in the event Benefon makes a net profit in two successive year quarters. The fee may further be increased to 25,000 GBP in the event Benefon makes an annual audited profit in excess of 7 MEUR.
- As a part of overall compensation and incentives OCOL or a third party appointed by OCOL will be awarded with 5 million option rights of series 2004A. Right to exercise these performance options requires Benefon's market capitalization to increase by more than 300% from February 1, 2006 to January 31, 2009 calculated on fully diluted method.

- OCOL is granted the right to nominate, at its discretion, certain number of board members such number being the highest whole number below one half of the number of all members in the board of directors.
- The initial term of the agreement is three (3) years, which will automatically be extended by three (3) years at a time provided that agreed performance targets are met.

More detailed information can be found in the bulleting of May 5, 2006 to call the annual general meeting.

The Board of Directors of Benefon has handled and accepted the management agreement and the above amendments in the terms of option rights 2004A and Articles of Association in its meeting of May 5, 2006. However, due to a fact that the Chairman of the Board Brian Katzen and member of the Board Jeffrey Crevoiserat are both also beneficial owners of Octagon Consulting Limited the Board of Directors has deemed it appropriate to disclose the main terms of the management agreements and bring it to annual general meeting for confirmation.

The board of directors has also proposed to the annual general meeting convening on May 24, 2006, to resolve to offer a total of 20,000,000 option rights of series 2004A ("Options") as follows:

Party:	Number of Options:
Ning Po Limited	10.750.000
LAIP Limited	7.250.000
Vanguard Limited	2.000.000

The Options are transferred to the above parties from Octagon Capital Limited that is holding them for the company based on a separate holding agreement entered into with Benefon. The Options are offered the above parties to motivate them to act for the company for increasing the value of company shares.

On May 9, 2006 the company announced that it had subcontracted UK based DataArt's Mobile Research and Development Group for its exclusive use. The agreement included a team of software development engineers based in St. Petersburg, Russia.

Benefon will integrate the engineers into its Mobile Navigation business unit while preserving the team's focus on designing solutions that offer users complete GPS software and applications.

On May 10, 2006 the company announced that it has commissioned designer Ross Lovegrove to design its future range of personal navigation devices. The agreement includes 3 phones with 2 year exclusivity provision and an option for a further 3 phones and an additional exclusivity period of two years totaling four years.

On April 24, 2006 the company announced that it has appointed Mr Jeremy Newing to the position of Chief Marketing Officer reporting to the CEO. Mr Newing has over 10 years of international management experience in the mobile phone and consumer durables sectors. He was most recently the Regional Marketing Director of BenQ Mobile responsible for the visualization and implementation of the marketing strategy throughout Western Europe. At the same it was announced that Mr Simon Button has been appointed to the position of Chief Technical Officer reporting to the CEO. Mr Button has spent the last twelve years with Voxson in Australia where he was Chief Technology Officer. Voxson, one of the world leaders in the design of GSM mobile devices, specialized in hardware, mechanical and software development. Simon brings with him a wealth of experience in GSM technology and also the Asian mobile phone market.

The company also recently recruited 4 mechanical design engineers to focus on the mechanical ID designs created by the company's Designer, Ross Lovegrove.

#### **SALES, MARKETING AND BUSINESS DEVELOPMENT**

Mobile telematics sales are directed to about 20 countries and the sales efforts were focused especially on customer projects in Western Europe and other targeted markets. The share of mobile telematics sales of all sales in the reported quarter was nearly 100 %.

The range of mobile telematics products covers personal security and navigation applications as well as field management applications, vehicular and machine communications (M2M) applications and asset tracking. New TWIG products will strengthen company's product offerings also in the consumer navigation market.

During the reported quarter the R&D-activities focused on development and realization of the new TWIG product generation. The company is receiving strong demand for its launch product TWIG Discovery, the ultimate success of which will depend on acceptance within the various sales markets.

#### **Research and Development**

The company's main focus currently is the finalization of the TWIG Discovery and the integration of the company's personal navigation software, its telematics server and its operating system into its integrated GPS/GSM personal navigation device.

#### **RISK MANAGEMENT**

Benefon's business risks have been widely explained in the Prospectus published on January 18, 2006. Overall, the biggest business risks of the company relate to failure to get the new TWIG product line in the markets on time to keep the competitive edge given by the innovative design and technological solutions. Additionally, the new products will be essential since the sales of current product line is getting closer to end of its life cycle. As intellectual property rights and innovations are essential to company's success it has commenced internal projects to improve the management and protection of its key assets. Besides the above mentioned factors the company does not see any specific risk factors that would be different to risks of any company within the same line of business.

Company has paid special attention to improve its risk management by recruiting experienced resources and strengthening its management team. Benefon has also commenced an internal improvement plan, which also as a part of the plan includes improving risk management and implementing stringent improved corporate governance programs.

The company's overall financial performance is affected by exchange rate fluctuations. Exchange rate risks arise from exports and imports. The main account currency is the euro. The company also has invoicing in US dollars. The company imports its products from China and pays in US Dollars. However such purchases are affected by the Chinese RNB which at present is facing extreme volatility. Benefon Oyj doesn't have any long-term foreign exchange commitments

#### **FINANCIAL PERFORMANCE IN THE PERIOD**

The Company has adopted the International Financial Reporting Standards (IFRS) and the financial information provided in this interim report has been prepared according to IFRS.

The net sales of the Company decreased by 36% from the prior quarter and 28% from the same quarter of the prior year.

The net sales of the company in quarter 1-3/2006 were 1124 teuros, as compared to 1753 teuros in the preceeding quarter 10-12/2005. The net sales in the same quarter 1-3/2005 a year before were 1564 teuros.

The operating profit in quarter 1-3/2006 was -1207 teuros. The comparable figure in the previous quarter 10-12/2005 was -1073 teuros and the same in the same quarter 1-3/2005 a year before was -376 teuros.

The total of the balance sheet at the end of quarter 1-3/2006 was 14321 teuros. The total of the balance sheet at the end of the previous quarter 10-12/2005 was 4974 teuros and at the end of the same period 1-3/2005 a year before it was 4514 teuros.

The shareholders' equity in the balance sheet at the end of 1-3/2006 was 12003 teuros, or about 84%, when at the end of the prior quarter 10-12/2005 it was -2331 teuros, or about -47%. At the end of the same period 1-3/2005 a year before it was -689 teuros, or about -15%.

The book value of interest-carrying net debt at the end of 1-3/2006, including the capital loans, was 985 teuros. The total liabilities at the end of 1-3/2006 were 2318 teuros, whereas they were 7305 teuros at the end of the prior quarter 10-12/2005 and 5203 teuros at the end of the same quarter 1-3/2005 a year before. Cash at hand and in the banks at the end of the period was 10051 teuros of which 357 teuros was pledged.

#### **REPORT ON SUFFICIENT LIQUIDITY IN PERIOD 04/2006-06/2007**

The below cashflow statement assumes that sales targets set in financial projections for financial years 2006 and 2007 are met. As stated in section "Future Outlook" hereinafter, the projections are highly dependent on timely launch and sales success of company's new TWIG product line.

Cash Flow Statement 04/2006-06/2007	million euros
Cash flow from operations	
Profit for the period	19,3
Adjustments	0,9
Changes in working capital:	
Change in receivables	-16,4
Change in inventories	-3,0
Change in current liabilities	2,8
Paid and received interests	-0,1
Cash flow from operations	3,5
Cash flow from investments	-7,4
Cash flow from financing	0,0
Change in cash	-3,9
Cash in the beginning of the period	10,1
Cash at the end of the period	6,2

Should the future development deviate from current information or estimates, it may significantly affect the construed cashflow account.

#### **INVESTMENTS**

Gross investments in fixed assets in the reporting period were 871 teuros.

#### **PERSONNEL**

The number of employed personnel at Benefon in the quarter 1-3/2006 averaged 76. Alternate forced leaves affected 29 people of the employed personnel.

#### **FUTURE OUTLOOK**

After closing the sufficient financing in February 2006, the company will concentrate on finishing its new product range and implementing its published business plan, the crucial part of which is to start the sales of the TWIG product range in chosen markets and to strengthen the brand identity. The financial result of year 2006 will be strongly dependent on getting the new TWIG products in markets and success in their sales. The deliveries of the first product of this product program, TWIG Discovery, were originally planned to begin during the first year quarter 2006. Due to unforeseeable delays in production phase the project has been delayed and according to latest estimates the sales are targeted to start at the beginning of the third quarter 2006. The company has also plans to launch a second TWIG product late in Q4 of 2006.

The introduction of TWIG Discovery was delayed due to the integration of the various complex software requirements. Benefon's technology encompasses amongst others the following: Benefon telematics server, which includes tracking, emergency button functionality and location based software, Benefon personal navigation software and mobile phone operating software solution. Ensuring all the above function in the required manner along with the ensurance of the conformity with the standards and integrating such software into a mobile device has stringent testing requirements. In order to ensure a successful launch of TWIG Discovery Benefon have taken the decision to make sure the device is fully compliant in all circumstances and this has caused additional test time along with additional compliance time and has resulted in a delayed launch of the product.

Benefon expects to receive during June confirmation that the device fully conforms to the requirements of the standards. Network testing and approval by market will then follow based on the needs of customer requirements

The company will estimate the need to update the financial forecast for 2006 published on January 12, 2006 as soon as the start date for deliveries of TWIG Discovery can be confirmed.

Due to above delays with new TWIG products the financial result of the first six months of 2006 seems to fall under the level budgeted in company's managerial accounting. The most important reasons for this are that company's current product line is getting closer to end of its life cycle and the sales are decreasing a bit faster than originally expected. At the same Benefon has invested heavily in the development of its new TWIG product line, which due to above-mentioned reasons has been delayed. This has had a clear negative impact on company's financial performance during the first six months. The launch of new product line is expected to turn sales and profitability in clear growth.

**EQUITY ISSUE AUTHORITY OF THE BOARD**

The annual general meeting of May 26, 2005, decided to cancel the authorization granted on May 28, 2004, and authorized the Board of Directors within one year from the meeting to decide on the increase of share capital by rights issue or issue of options or convertible bonds in one or more installments, such that maximum number of new investment series shares is 25,630,809. Therefore, the share capital may based on the authorization be increased by a maximum of EUR 256,308.09. The authorization includes the right to deviate from the pre-emptive right of the shareholders and right to decide that the shares can be subscribed for in kind, using the right of set-off or on other specific terms.

The authorisation has been used in November 2005 when the board of directors decided to increase the share capital of the company by a maximum of EUR 23,809.52 by issuing a convertible bond loan with a loan capital of EUR 500,000. By virtue of the authorization the share capital can still be increased at maximum by EUR 232,498.57.

**ADOPTING IFRS REPORTING**

The company adopted the International Financial Reporting System (IFRS) during financial year 2005. The financial statements for year 2005 and this interim report 1-3/2005 have been prepared and presented according to the IFRS standards. In the market bulletin issued by the company on January 12, 2006, about adoption of IFRS reporting the company has detailed the most essential changes in preparing and presenting the group financial statements caused by the adoption of IFRS reporting.

BENEFON OYJ

Jonathan Bate  
CEO

## INTERIM REPORT 1-3/2006, IFRS

	1-3/06 1000 EUR	1-3/05 1000 EUR	1-12/05 1000 EUR
Net sales	1124	1564	7562
Other operating income	1	17	85
Costs of operations	-2309	-1891	-10860
Depreciation and value adjustments	-23	-66	-185
Operating profit	-1207	-376	-3398
Financial income and expenses	-66	-123	207
Profit before taxes	-1273	-499	-3191
Income taxes	0	0	0
Profit for the period	-1273	-499	-3191
<b>Fixed assets</b>			
Tangible assets	126	209	132
Intangible assets	881	25	27
Investments	61	60	61
<b>Current assets</b>			
Inventories	1136	2129	1282
Receivables	1497	1114	1566
Prepaid expenses	569	64	569
Cash in hand and at banks	10051	913	1337
Share capital	2138	1282	1313
Other shareholders' equity	9865	-1971	-3644
Long-term liabilities	937	2983	985
Current liabilities	1381	2220	6320
Balance sheet total	14321	4514	4974
Gross investments in fixed assets	871	0	40
Average number of personnel	76	78	76
<b>Pledged assets and contingencies</b>			
Contingent liabilities relating to chattel mortgage	1655	1484	1633
Chattel mortgage nominal value	12068	12068	12068
Pledged assets	399	325	403
Earnings/share, EUR	-0,01	-0,00	-0,03
Shareholders' equity/share, EUR	0,06	-0,01	-0,02
Shareholders' equity/share, diluted	0,04		

The key ratios have been computed undiluted as the dilution effect would improve them. In computing the result per share, neither the debt cuts nor the additional payments due to reorganisation have been included.

The interim financial statements have not been audited.

## CASH FLOW STATEMENT

	1-3/06 1000 EUR	1-3/05 1000 EUR	1-12/05 1000 EUR
Cash flow from operations			
Profit for the period	-1273	-499	-3191
Adjustments	212	72	-764
Changes in working capital:			
Change in receivables	-69	-254	-1211
Change in inventories	146	177	1024
Change in current liabilities	-804	55	1158
Paid and received interests	-7	-11	-30
Cash flow from operations	-1795	-460	-3014
Cash flow from investments	-871	0	-40
Cash flow from financing			
Share subscription payments	11676	0	434
Transaction expenses of share issues	-296	0	-9
Raised loans, equity	0	0	313
Raised loans, liability	0	0	2637
Payments of reorganization debt	0	0	-357
Cash flow from financing	11380	0	3018
Change in cash	8714	-460	-36
Cash in the beginning of the period	1337	1373	1373
Cash at the end of the period	10051	913	1337